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Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women

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Audit matters

Report of the Audit Advisory Committee for the period from 1 January to 31 December 2016

I. Introduction

1. Pursuant to item 29 of the terms of reference of the Audit Advisory Committee (AAC), the fifth report of the Committee to the Under-Secretary-General/Executive Director of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) provides a summary of the activities undertaken and the advice given by the AAC in 2016. The present report is made available to the Executive Board and, upon request, the Chair presents the report to the Board.

Background

2. In May 2012, the Under-Secretary-General/Executive Director of UN-Women approved the original terms of reference of an oversight committee, to be known as the AAC. The terms of reference may be modified from time to time, as necessary. In January 2017, the Under-Secretary-General/Executive Director approved revised terms of reference, which are available from www.unwomen.org/en/about-us/accountability/audit.

3. Item 1 of the terms of reference describes the Committee as having been established to provide the Under-Secretary-General/Executive Director with independent, external advice based on good practice regarding the organization's accountability framework and systems, including risk management. The Committee assists the Head of the Entity in fulfilling its oversight responsibilities in accordance with relevant best practices. The Committee has an advisory role and is not a governance body; no language or clauses in the terms of reference are intended to imply otherwise.

4. In September 2012, the Under-Secretary-General/Executive Director formally constituted the AAC to further enhance accountability and "promote proper governance and high ethical standards, as well as the adoption and use by

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management of best practices in risk and financial management" within UN-Women, in accordance with item 2 of the terms of reference.

5. As at 31 December 2016, the Committee comprised five members, as contemplated by its terms of reference. Those members are William Fowler (United States of America); Patricia Francis (Jamaica, effective 1 August 2016); Elizabeth MacRae (Canada); Yuen Teen Mak (Singapore); and Mary Ann Wyrsch (United States of America, effective 1 August 2016). During 2016, one member, Lamin Sise (The Gambia) resigned as at 21 April 2016. The Committee as a whole is made up of experts in financial reporting and programme matters, accounting, governance, internal audit and investigation, external audit, internal control and risk management practices and principles and United Nations intergovernmental and normative work and processes.

6. In accordance with items 6 and 7 of the terms of reference, all Committee members are independent of and external to UN-Women. Additionally, Committee members complete an annual confirmation of independence for the Under-Secretary-General/Executive Director that assures the transparency of Committee members fulfilling their roles, without compromising any interests.

II. Audit Advisory Committee activities and advice as at 31 December 2016

7. In 2016, the Committee held three face-to-face meetings, from 19 to 21 April, from 12 to 14 July and from 15 to 17 November. UN-Women participants in the meetings included the Under-Secretary-General/Executive Director, the two Deputy Executive Directors and relevant representatives of programme and operational senior management. As required, the Committee also met without management present and had separate in-camera meetings with the Under-Secretary-General/Executive Director, the Board of Auditors and the Director of the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), which is the Office responsible for the UN-Women Audit Unit. The Committee also met with UN-Women's Legal Officer and representatives of the UN Ethics Office. The Chair of the Committee participated in the annual session of the Executive Board in June 2016. In addition to formal meetings, Committee members continued their internal consultations and deliberations, document review and provision of advice to UN-Women management via telephone and e-mail interaction.

8. Minutes from the meetings were prepared and approved. The Committee interacts regularly with the Under-Secretary-General/Executive Director during each meeting and formally reports on its deliberations after each on-site meeting.

9. In March 2016, two Committee members participated in a five-day field visit to the regional office of UN-Women in Panama and the Entity's country office in Paraguay. The objective of the field visit was to enable Committee members to better understand field operations, gain an appreciation for how the business objectives of UN-Women are achieved, and effectively carry out their oversight role and add value to UN-Women. The terms of reference for the field visits, adopted by the Committee at its meeting in July 2014, were re-confirmed and endorsed by UN-

Women management. Key observations from the field visit were shared with fellow Committee members and UN-Women management.

A. Board of Auditors

10. The Committee has met regularly with the Board of Auditors to share relevant information and understand the strategies implemented to ensure overall audit coverage for UN-Women, which includes the work performed by the UN-Women Audit Unit.

11. The Committee has also regularly been updated on the implementation status of the recommendations contained in the Board of Auditors' management letters and reports. The Committee supports efforts by UN-Women to address the outstanding issues in a timely manner and within available resources, particularly in ensuring that underlying systemic and strategic issues are addressed in a consistent and ongoing basis.

B. Regional architecture and organizational challenges

12. The Committee has been briefed extensively by senior management on the organizational challenges that UN-Women has experienced since its formal inception in 2011, when four entities of the United Nations were combined to create UN-Women.

13. In 2014, the implementation of the regional architecture of UN-Women was completed. The Committee recognizes that regional and other field offices need the capacity to exercise authority in a decentralized work environment. It also notes that the requisite controls must be in place both at Headquarters and in the field to monitor and mitigate operational and strategic risks. In this respect, UN-Women needs to assess and implement appropriate structures to support its Second Line of Defense at headquarters and in the field. To support field operations, it may also be prudent to identify financial and human resource specialist positions in the regional offices as well as organizational focal points in field offices for the ethics function.

14. The Committee also understands that UN-Women continues to update its Human Resource Strategy and implement organizational development initiatives. Key areas of focus include strengthening and streamlining the recruitment process with a new e-recruiting system and issuance of a staff rotation policy.

15. As noted in the Committee's previous reports, the regional architecture was one of the Entity's organizational priorities. An independent evaluation of the regional architecture was completed in 2016. The Committee understands that the regional architecture increased the overall ability of UN-Women to respond to stakeholders' needs. However, because of working realities in the field, regional architecture likely requires greater flexibility to facilitate evolving typology of offices, including clear processes and clarity of roles and responsibilities in decision-making.

16. The Committee also understands that, in response to the evaluation, UN-Women is currently reviewing its global presence, that is to say, responsibilities for and differences in programme delivery and operations among regional offices, multi-country offices, country offices and programme presence. The Committee

further understands that UN-Women will be developing policy and guidance along with a tool to assess country differentiated presence typology and make any appropriate structural adjustments in line with the Strategic Plan 2018-2021. The Committee views these activities of prime importance, given the continued resource constraints that the Entity is experiencing.

C. Programming activities

17. The Committee continues to support UN-Women in its 2015 initiative to move to Flagship Programming Initiatives (FPIs) to further align the Entity's normative, coordination and operational work, thus improving overall programmatic clarity. The Committee understands that initial benefits have been identified in terms of fostering transformative change, reducing transaction costs, and strengthening coordination and coherence within the UN system. However, the FPIs have not delivered on the mobilization of resources expected and a more focussed effort is needed in this regard.

18. As part of the change management process underpinning the implementation of Flagship Programmes, the Committee understands that UN-Women will focus on strengthening business development skills and providing other relevant training for UN-Women field representatives.

19. The Committee also recognizes that the Entity continues to enhance its results-based management system (RMS), which is intended to place a greater focus on results and value, directly linking development impacts with inputs, simplifying the management and reporting on performance indicators, and including a more direct link between programme results and budget expenditures/financial flows.

20. The Committee commends UN-Women on this initiative to create such a comprehensive RMS tool, which allows easy extraction of detailed information on UN-Women's work in the various impact areas. It is important that UN-Women continues to enhance the RMS and build strong monitoring systems in the field. The Committee encourages UN-Women to explore further the potential for RMS in its interlinkages with the enterprise risk-management system.

21. The Committee reiterates that UN-Women continues to monitor closely the management of advances made to implementing partners to fully address the underlying causes/systemic weaknesses of the long outstanding advances and mitigate the risk that such funds could be used for unintended activities. The Committee understands that the Entity is developing a strategy to address the issue of partner advances, which includes a policy on the capacity assessment of implementing partners, an enhanced monitoring mechanism, and Entity-wide training.

D. Funding framework and resource mobilization

22. The Committee appreciates the elements included and the complexities of UN-Women's Funding Framework and budgetary processes. The Committee reiterates the importance of ensuring transparency and cost alignment in the funding framework—for example, that all costs are funded from the correct funding sources, and that central costs are proportionally funded from core and non-core resources.

23. One key aspect of UN-Women's financial realities is its resource mobilization targets and strategies. As noted previously, the Committee understands the potential opportunities that the regional architecture has created to strengthen and increase the linkages for inter-agency coordination and resource mobilization at the local level.

24. The Committee recognizes that UN-Women developed a Resource Mobilization Strategy 2014-2017. This strategy is intended to enable a coordinated effort involving a contribution from every part of the organization—under the leadership of the Under-Secretary-General/Executive Director—to help reach the targets for voluntary contributions to support full implementation of the UN-Women Strategic Plan 2014-2017.

25. The Committee also understands that UN-Women finalized a Private Sector Engagement Strategy in 2016 and developed a Communication and Public Advocacy Strategy 2016-2020, the latter highlighting the linkage between advocacy measures and resource mobilization. The Committee recommends that UN-Women focus on quality and capacity of implementing partners rather than quantity of partners and supports its continued advocacy and private sector engagement efforts.

26. The Committee continues to note the Entity's ongoing challenges regarding resource mobilization and understands that resource mobilization was identified as the highest risk in its first corporate risk report. While some challenges may relate to the exchange-rate losses, shifting priorities and uncertainties in political environments of donors, and the refugee crisis in Europe, some may also be due to UN-Women's ambitious targets. In this respect, the Committee reiterates the importance of realistic targets and clear assignment of responsibility and accountability for resource mobilization for both core and non-core resources, particularly in the field. Without such clarity, the risks of not meeting resource requirements are increased, and resources may not be sufficient for UN-Women to carry out its mandate.

27. The Committee also notes that a resource mobilization audit was included in UN-Women's approved 2016 Internal Audit Work Plan. UN-Women management requested that the audit be postponed to 2017 to permit completion of ongoing internal reorganization and restructuring of the resource mobilization functions. The Committee underscores the importance of performing this audit in early 2017.

28. The Committee encourages UN-Women to continue to identify innovative solutions to resource mobilization at Headquarters and in the field, including the use of social media tools. However, while the pace of resource mobilization clearly needs to be accelerated and delivery through implementing partners needs to be more effective, the Committee again recommends prudence in UN-Women's resource mobilization efforts. UN-Women should therefore guard against a tendency to accept all moneys, which could lead to non-reversible long-term commitments and future risks to the Entity's core mandate.

E. Enterprise risk management

29. In 2015, UN-Women approved its enterprise risk management policy, and in 2016, used a phased approach to begin implementing the strategy, embedding and mainstreaming enterprise risk management into its business processes. Risk focal points were identified in country and regional offices and at headquarters and a

Corporate Risk Officer was designated. The Committee understands that UN-Women has also identified accountability and responsibility for risk ownership, differentiating between risk managers and risk owners, and has established appropriate means to ensure confidentiality of risk management information. A training plan has been established to support staff in their risk responsibilities, including identifying and monitoring risk mitigation actions. The Committee supports UN-Women's efforts to date.

30. The Committee also reiterates the importance of both the Board of Auditors and internal auditors being cognizant of the enterprise risk-management framework and its components such that the risk profiles and registers inform audit plans, as necessary.

F. Evaluation function

31. The Independent Evaluation Office shared its 2015 Report on the evaluation function at UN-Women. As noted previously, the Committee believes that evaluation results should reflect achievements expected in the Strategic Plan and be used to increase knowledge and improve performance results. In this respect, it is particularly important that the annual evaluation report is practical, realistic and usable and reflects clearly how the programmes have been effective

32. The Committee continues to stress the importance of appropriate centralized and decentralized resourcing of the evaluation function. The Committee understands that the Regional Evaluation Specialists play a major role in supporting decentralized evaluations through quality assurance and technical advice as well as management of regional evaluations. The Committee notes the high degree of coordination between headquarters and evaluation specialists in the regions.

33. As noted in its 2015 annual report, the Committee understands that the future projected budget for the evaluation function is 3 per cent of UN-Women's total plan/programme budget, as recommended in its evaluation policy. The Committee believes that this percentage appears high, given the size of UN-Women and the resource challenges that it faces. It may be preferable for UN-Women to focus its already limited resources on areas such as programme monitoring, risk mitigation and results measurement.

G. Internal audit

34. The Committee recognizes that UN-Women entered into a Service Level Agreement with the Office of Audit and Investigations (OAI) of UNDP in December 2011 to conduct internal audits and investigations on behalf of UN-Women. The Committee notes that a further agreement for an additional two years was entered into in December 2013 and then again in December 2015.

35. Because the internal audit function is currently outsourced to another organization, separate from UN-Women, it is important that there be ongoing feedback and communication between the Service Level Agreement provider, OAI, and UN-Women senior management. This should include substantive discussion regarding progress of internal audit plans, results of engagements, and status of implementation of recommendations. Further to the Committee's previous

recommendation, it is important that UN-Women identify a senior-level staff member with no operational management duties in the Entity to be responsible and accountable for the internal audit function. This would include overseeing and assessing the performance of internal audit activities and ensuring that results are integrated into the Entity.

36. In 2014, UN-Women commenced the process of determining whether value for money was obtained through outsourcing the internal audit function or whether an in-house internal audit function would be preferable. In its 2014 annual report, the Committee recommended that the UN-Women Audit Unit, established through the Service Level Agreement with UNDP, be continued until UN-Women had its full senior management structure and complement in place and the costs and benefits of any subsequent transition of the internal audit function were identified and approved by the Executive Board.

37. In 2016, UN-Women had its full senior management structure and complement in place. The Committee therefore reiterates its recommendation that UN-Women study the options for the most appropriate model to deliver internal auditing—through outsourcing or an in-house function. As noted in the 2014 AAC annual report, this should be fully supported by a comprehensive budget proposal for the consideration of the Executive Board, which includes the resources required to manage the realization of a full transition to internal audit capacity, in addition to the resources needed to establish the management and administrative infrastructure of the function.

38. Further to the foregoing paragraph and in view of paragraph 32, which refers to the projected future budget of the Office of Evaluation, UN-Women may wish to consider the option of including the internal oversight and assurance functions found in its Third Line of Defense (e.g. internal auditing, investigations, and evaluation) into one oversight unit. This could create synergies among the functions, improve effectiveness and value-for-money, and support increased overall assurance with respect to UN-Women's operations, programmes, and performance. However, in doing so, it is important that the necessary safeguards are put in place to ensure that the independence and results expected of the various functions is not jeopardized simply to optimize expenditures.

39. The Committee also recommended in its 2014 report that, as part of the process of studying options for the most appropriate internal audit model, UN-Women determine the level of audit assurance required. This is particularly important in view of the audit opinion required by Executive Board decision 2015/4. It is also important to understand that the annual audit opinion is based on the internal audit work performed during the year. Currently the audit coverage is somewhat limited and this lack of comprehensiveness may eventually reduce the significance of the opinion.

40. The Committee reiterates the importance of regularly monitoring and assessing resource levels and capacity to ensure that they are appropriate and sufficient to address the overall assurance needs of UN-Women. The Committee notes in paragraph 19 of the Report on internal audit and investigation activities for the period from 1 January to 31 December 2016 (UNW/2017/3), "... OAI requested additional resources in 2016. Although several discussions took place in 2016 regarding audit resources, as of 31 December 2016, management had not committed to providing additional audit resources." The Committee supports the continued

strengthening of the internal audit services of UN-Women in order to ensure sufficiency of audit coverage in audit plans, further to Executive Board's decision No. 2015/4.

41. While the Committee understands that the UN-Women Audit Unit communicates its annual workplan to the Board of Auditors, it is also important that the Unit and the Board of Auditors engage in more ongoing communication and collaboration to ensure the complementarity of the audit functions. This is particularly relevant in view of the annual audit opinion requested by the Executive Board, noted in paragraphs 38 and 39, where external audit coverage could enhance the internal audit coverage and strengthen the overall assurance provided to the Entity.

42. The Committee understands that the UN-Women Audit Unit is considered operationally independent from UNDP. However, the Committee remains concerned that there may be potential conflicts of interest because UNDP undertakes some administrative functions for UN-Women through other Service Level Agreements, such as for information and communications technology systems and the administration of payroll, benefits and entitlements.

43. The Committee reviewed the annual workplans for the UN-Women Audit Unit for both 2016 and 2017 and recommended the approval, in principle, of the plans. The Committee notes that starting in 2015, the plan also included financial audits of projects directly implemented by UN-Women, thereby increasing the assurance provided. However, the Committee also understands that such projects, referred to as the Direct Implementation Modality (DIM), may decrease as a result of the programme strategy underpinning the FPIs, which is intended to allow UN-Women to move from a large number of small programmes to a small number of large programmes. This factor will have to be taken into consideration in future work plans to ensure appropriate assurance is provided.

44. As noted in the 2015 Committee report, it is important that internal audit re-visit UN-Women's audit universe and its operating modalities in view of the implementation of regional architecture. In addition, the annual risk assessment of both headquarters entities and processes and field offices will have to be refined to reflect changes to UN-Women's organizational structure and strategic and operational priorities and to leverage the results of the Entity's risk registers, developed as part of its enterprise risk management framework.

45. The Committee was provided with quarterly progress reports and briefed on the results of the various audit engagements performed during 2016, including systemic and recurring issues of interest. It is important that UN-Women address recurring audit issues, particularly those dealing with Entity-wide or corporate issues. In this respect, the OAI 2016 annual report states that 27 per cent of all audit recommendations were corporate in nature relating to UN-Women policy guidance and corporate support.

H. Investigations

46. The Committee received regular updates from OAI, which provided an overview of the investigation caseload, the breakdown of the nature of the allegations, and the status of the cases.

47. The Committee reiterates the importance of the Under-Secretary-General/Executive Director and relevant members of UN-Women senior management receiving timely reports setting out the current investigation cases as well as identifying the action taken and any follow up required by UN-Women management as a result of closed investigation cases, particularly those resulting in an investigation report. In that way, UN-Women can satisfy itself that there is appropriate follow-up for cases that warrant investigation and that UN-Women's accountability for decision-making and results is assured.

48. The Committee also notes the increase of new investigation cases in 2016. This may be due partially to measures taken by UN-Women to address the low level of reporting wrongdoing in previous years. The Committee understands that UN-Women initiated training in 2016 that focussed on creating a greater awareness of the reporting obligation and the channels to do so. UN-Women has also reflected the reporting mechanisms more prominently on its intra- and internet and created a dedicated web-space that provides information on how to deal with wrongdoing and misconduct, and includes the harassment and retaliation policies.

49. The Committee commends UN-Women for the foregoing initiatives and for commencing development of its own "Anti-fraud policy" to strengthen its approach to fraud and corruption which will provide UN-Women staff, implementing partners, as well as vendors, with a clear policy on fraud prevention, detection and response.

50. The increase in investigation cases in 2016, and the associated significant backlog of outstanding cases, was of concern to the Committee. Currently, UN-Women reimburses OAI costs incurred to perform the investigation function. The Committee understands that for 2017 UN-Women has agreed to support one Investigation Officer in OAI dedicated to UN-Women's cases. It is important that UN-Women assesses the quality and timeliness of services provided by OAI for its investigation function and determines the appropriate modality to effectively deliver this function with the commensurate resources.

I. Ethics

51. In 2011, UN-Women established an institutional arrangement with the UN Ethics Office to provide ethics services to the Entity. To strengthen the culture of ethics and integrity at UN-Women, the Committee suggests that UN-Women initiates practices to ensure that there is more interaction and communication between UN-Women senior management (including UN-Women's Legal Advisor) and the UN Ethics Office. UN-Women could also consider establishing a functioning focal point for ethics liaison in UN-Women to ensure that the Under-Secretary-General/Executive Director is regularly informed of ongoing activities in this area.

J. Financial statements

52. The Committee reviewed the draft financial statements for the year ended 31 December 2015. The Committee commends UN-Women on receiving an unqualified audit opinion from the Board of Auditors for the fifth consecutive year since its inception in 2010. The financial reporting for UN-Women continues to

improve and refinements continue to be made, as necessary. The Committee notes that a permanent Director of Management and Administration—a position that had been vacant since 28 March 2015—was appointed in September 2016. The Committee underscores the importance of the Entity's finance leadership having the appropriate accounting and financial expertise and experience, thus reinforcing the importance of effective financial management and reporting, particularly in view of UN-Women's ongoing resource challenges.

K. Information and Communication Technology (ICT)

53. While UN-Women's ICT Strategy 2016-2019 and its implementation roadmap were shared with the Committee, the Strategy was approved only for 2016-2017 to align with the current Strategic Plan. The Committee understands that UN-Women is the first cloud-based UN agency, and that its ICT architecture is client-focussed and cost-effective. The Committee further understands that UN-Women has revised its ICT governance policy, has a designated Information Security Officer, and will continue to implement a revised ICT governance structure to ensure risks are managed appropriately and address the increasing risk and complexity of UN-Women's growing ICT system environment.

L. Relationship with the United Nations Development Programme

54. As noted in paragraph 41, the Committee is aware that UN-Women has entered into Service Level Agreements with UNDP to undertake some of the Entity's administrative functions. UN-Women remains accountable for the Entity's overall performance; the Committee therefore reiterates the importance of UN-Women continuing to implement the relevant processes and procedures to ensure that any such outsourced functions are performed appropriately and represent value for money.

M. Strategic Plan 2014-2017 and 2018-2021

55. UN-Women shared the results of its mid-term review of the Strategic Plan 2014-2017 with the Committee. The review assessed progress in implementing the plan and identified lessons learned to help align indicators with the Sustainable Development Goals (SDGs), improve UN-Women's approach to support the gender responsive implementation of the 2030 Agenda, and inform the development of the Strategic Plan 2018-2021. The Committee looks forward to working with UN-Women as it evolves its results framework and aligns its Integrated Budget with the development of Strategic Plan 2018-2021.

III. Final considerations

56. The Committee has reviewed the Report on internal audit and investigation activities for the period from 1 January to 31 December 2016 (UNW/2017/3), to be submitted to the Executive Board at its annual session, and has taken note of the significant internal audit results identified.

57. The Committee expresses its support for the continued strengthening of governance, risk management, internal controls and accountability at UN-Women. However, the Committee continues to be concerned that the current funding situation of UN-Women may affect its ability to adequately resource key accountability functions and activities such as internal audit (including increasing internal audit coverage), enterprise risk management, and monitoring and oversight, which includes functions in the Second Line of Defense in Headquarters and the field.

58. The Committee supports the continued collaboration of UN-Women with partners within and outside the United Nations in achieving its strategic objectives in advancing gender equality, promoting the empowerment of women and girls and ending violence against women.